

Testimony of

Honorable Glenn English
Chief Executive Officer

National Rural Electric Cooperative Association

Examination of Rural Development Programs

before the

Senate Committee on Agriculture, Nutrition, and Forestry
U.S. Senate

June 20, 2006

Mr. Chairman and Members of the Committee:

My name is Glenn English, and I am the Chief Executive Officer of the National Rural Electric Cooperative Association (NRECA). As a former member of the House Agriculture Committee, I fully appreciate your responsibility to oversee the programs of the Department of Agriculture. I am honored to be invited to add my perspective here today on a variety of programs involving the Department of Agriculture and challenges facing electric cooperatives.

It is no revelation to this Committee that electric cooperatives have been creating value for their communities for more than 70 years. The nation's 930 consumer-owned, private electric cooperatives generate, transmit, and distribute electric energy in 47 states. Electric cooperatives' lines and poles span more than 75 percent of the nation's landmass, and account for more than 2.4 million miles of distribution line amounting to 43 percent of the distribution line miles in the United States.

Electric co-ops serve an average of seven consumers per mile of line with annual revenues of \$10,565 per mile of line. In comparison, investor-owned utilities average 35 customers per mile of line and collect \$62,665 in revenue per mile of line, and publicly owned utilities, or municipals, average 47 consumers and collect \$86,302 in revenue per mile of line.

The importance of the electric utility industry cannot be overstated. Earlier this year, I met with the Department of Homeland Security to discuss hurricane planning for electric cooperatives. A high-ranking official at DHS remarked that the lives of those affected by Katrina and Rita only started to improve when the electricity was restored. Electricity fuels modern life – our clean water supply, our telecommunications, and our healthcare.

Those of us in the electric utility industry have an obligation to meet the future needs of our consumers, and we take that responsibility very seriously. What our consumers will need in the future, above all, is additional generation and access to affordable transmission.

The Advent of a New Building Cycle

In a 2001 speech, Vice President Dick Cheney pointed out that the overall demand for electric power is expected to rise by 43 percent over the next 20 years. Meeting this additional demand would require between 1,300 and 1,900 new power plants. That averages to more than one new power plant per week, every week, for the next 20 years. "We all speak of the new economy and its marvels," he said, "sometimes forgetting that it all runs on electric power."

When generation and transmission (G&T) co-ops embarked on their first major building surge in 1975 to meet member needs, Gerald Ford was President, a gallon of gas cost 57 cents and electric co-ops served 20 million consumers. Ten years later, G&T co-ops had invested \$43 billion and added some 20,000 megawatts of power online.

Like the first expansion, what drives the need for more generation is consumer growth. Some cooperative service territories have experienced tremendous growth. For

instance, in central Florida, loads have climbed for years around 4.5 percent annually. A recent NRECA survey of G&Ts found they conservatively need \$28 billion over the next decade to build generation plants, add transmission lines and install pollution-control equipment to make older plants comply with state and federal environmental regulations. This is a massive undertaking that will involve a wide range of financing options, including the Rural Utilities Service (RUS).

The Importance of the Rural Utilities Service

In the past five years, more than 60 percent of electric cooperative financing has come from private sector sources. Loans to eligible cooperatives from the United States Department of Agriculture's Rural Utilities Service (RUS) represent approximately 40 percent of total co-op financing. However, this financing from the RUS remains an essential component of the co-op utility sector's loan portfolio. Some cooperatives have seen a portion of their service territories transformed into suburban areas. However, for the most part, electric co-ops are the sole providers of electricity to sparsely populated areas with below-average income levels. For these reasons, the RUS mission of financing new electric infrastructure and maintaining the current electric infrastructure in rural America must be preserved. The long-term partnership between the RUS and electric cooperatives brought electricity to rural America and the partnership is still vital to rural America's economic well-being.

The Administration clearly recognizes the increased demand for electricity infrastructure. However, their loan level request is not adequate to meet the growing needs for investments, especially in transmission and generation. So, electric cooperatives will work closely with the U.S. Congress to fund the RUS electric loan programs for FY 2007 at the \$6 billion level – a \$2.2 billion increase over the President's budget request. It is important to note that the RUS electric loan programs will cost the federal taxpayers less than \$25 million to help capitalize a rural electrical infrastructure that is the envy of the world. NRECA anticipates that an expanded program will not add new costs. The small federal investment in the RUS electric loan programs, coupled with efficient management of the cooperative, helps maintain a strong and viable rural electric infrastructure.

NRECA is asking Congress to ensure that rural consumers continue to have access to safe, reliable, and affordable power from electric cooperative utilities by fully funding and expanding the RUS electric loan program to reduce a backlog of pending RUS loan applications.

REDLG: A Partnership for Rural America

Electric cooperatives meet community needs other than electrification through their economic and community development efforts. These efforts create jobs and opportunity in the community and are facilitated largely through USDA's Rural Economic Development Loan and Grant (REDLG) program. This program provides zero-interest loans and grants through electric cooperatives to work in partnership with business and community leaders for all types of economic development projects – business incubators, medical and educational facilities, water systems, emergency

vehicles, value-added agriculture processing, manufacturing sites, etc. in some of the most rural areas of the country.

According to USDA, the REDLG program has provided more than \$330 million in zero-interest loans or grants to help finance these projects, and has leveraged well over \$2 billion in private funds to invest in rural communities while creating or retaining approximately 34,000 jobs. These are strong numbers, but they could be stronger. Our electric cooperative members have been faced with some challenges in the past in utilizing the program, but we are working with USDA in hopes of making the REDLG program easier to access and more user-friendly.

Electric Cooperatives: Leaders in Affordable Renewable Generation

America's member-owned electric cooperatives strongly support and encourage passage of resolutions, introduced recently in both Houses of Congress, establishing the goal of producing 25 percent of our nation's energy supply from renewable sources by 2025.

Co-ops, for more than a decade, have been strong proponents of increased integration of renewable fuels into our nation's energy supply. In fact, members of the national network of electric cooperatives currently receive 11 percent of their power from renewable resources. By increasing the country's use of renewable energy, cooperatives understand that we can improve our national security by reducing dependence on foreign oil and can reduce negative effects on the environment. Further, NRECA believes that renewable energy projects should be produced in a prudent and cost-effective manner.

Historically, electric cooperatives have been tied to agricultural regions that are now playing important roles in the development of a new renewable, ag-based fuel industry. By providing safe, reliable electric power at the lowest possible cost, electric co-ops can lend stability to the fledgling rural bio-fuels industry.

We are also developing innovative programs to meet the needs of our consumers without additional federal mandates. In the Chairman's home state of Georgia, cooperatives have developed a program to acquire the renewable energy they sell to their member-owners. Seventeen cooperatives banded together in 2001 to create Green Power EMC – an entity that exists to provide renewable energy to its member cooperatives for sale to end-users. Eleven more co-ops have joined since then, and together the 28 Green Power member co-ops now offer renewable energy to approximately 1.2 million households in Georgia.

Green Power EMC entered into a long-term power purchase agreement with a for-profit developer who constructed generation facilities based on methane gas reclamation at two of three landfills that will be able to generate 13 MW of power when fully operational. In addition, Green Power EMC has entered a similar arrangement for a 2.3-MW small hydro facility. To further diversify its portfolio, Green Power EMC will erect a wind measurement tower in northwest Georgia to study the economic potential for advanced wind turbines, and it is working with a local school in each co-op's service territory on the installation of a small photovoltaic system as an interactive educational tool to help teach science and math principles.

We appreciate the continued leadership of this Committee and the United States Department of Agriculture on electric cooperative issues. This Committee, the Department of Agriculture and the electric cooperative program have worked together for many years to anticipate and to meet the needs of our rural citizens. We look forward to working with you in the future.

I would like to thank the Committee for the opportunity to testify here today. I look forward to answering any questions you may have.